

County of Ventura  
AUDITOR-CONTROLLER  
MEMORANDUM

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To: Michael Powers, Director, Health Care Agency

Date: March 23, 2009

From: Christine L. Cohen

Subject: **AUDIT OF CHANGE IN DIRECTOR FOR THE HEALTH CARE AGENCY**

EXECUTIVE SUMMARY

In accordance with the 2005 County Administrative Policy regarding *Audit upon Change in Department/Agency Director or Elected Official*, we have completed our audit of the change in director for the Health Care Agency (HCA). Our overall objective was to determine whether appropriate actions had been taken to accomplish the transfer of accountability and administrative functions from the preceding to the succeeding director. We also evaluated actions taken upon the change in director for HCA's Behavioral Health Department. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors. Our findings are summarized below with details provided in the attached report.

Overall, HCA satisfactorily transferred accountability and administrative functions from the preceding to the succeeding HCA director. Also, actions taken upon the change in Behavioral Health director were generally appropriate. For example, County equipment was collected from the prior HCA and Behavioral Health directors and computer access was properly terminated. A *Statement of Economic Interests* was filed timely by the prior HCA director, and expense reimbursements paid to the prior HCA director in the months before leaving County service appeared to be appropriate. In addition, we verified that petty cash and change funds were properly safeguarded and confirmed that appropriate trust fund subsidiary ledgers were maintained.

However, opportunities were available to better account for departmental assets and manage the transition upon a change in director. Specifically, we found that:

- Oversight of petty cash and change funds was in need of improvement to strengthen internal controls.
- Accountability was not always properly established over fixed assets.
- Sensitive non-fixed assets have not been subject to a physical inventory as required by County policy.
- Trust fund reconciliations were not always submitted monthly to the Auditor-Controller.
- Required documents upon a change in director were not always completed in a timely manner.
- Facility access devices issued to the prior directors were not deactivated in a timely manner.

Although HCA management did not fully concur with all of the audit findings, management initiated action on each area identified for improvement. In response to the audit, HCA executive management stated:

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"HCA is appreciative of the effort and support provided by the Auditor Controller's office during the course of this 'Change of Director' audit. HCA is in full agreement with the Auditor Controller's office that the County Administrative Manual, 'Change of Director' policy, be updated to ensure that appropriate steps are taken in the transfer of accountability and administrative functions from a preceding to a succeeding Director. A comprehensive policy will provide for clearly defined procedures which will help ensure full compliance, accountability, and protection of County assets. At present, there is no centralized checklist available to advise agencies on what items need to be addressed or what protocols need to take place. Since the audit commenced, HCA has developed an internal change in Director Check list to insure these items will be properly addressed in the future.

"HCA management has already implemented many of the corrective actions and will complete any outstanding corrective actions by April 1, 2009."

We appreciate the cooperation and assistance extended by you and your staff during this audit.

cc: Honorable Steve Bennett, Chair, Board of Supervisors  
Honorable Kathy Long, Vice Chair, Board of Supervisors  
Honorable Linda Parks, Board of Supervisors  
Honorable Peter C. Foy, Board of Supervisors  
Honorable John C. Zaragoza, Board of Supervisors  
Marty Robinson, County Executive Officer

## AUDIT OF CHANGE IN DIRECTOR FOR THE HEALTH CARE AGENCY

### BACKGROUND:

The Health Care Agency (HCA) is comprised of the following seven departments: Public Health; Behavioral Health; Emergency Medical Services; Medical Examiner; Medical Center; Ambulatory Care; and Health Care Plan. HCA provides a system which ensures access to quality, cost effective, culturally sensitive health care for all, especially the most vulnerable members of Ventura County.

The current HCA director, Michael Powers, was formally appointed to replace Pierre Durand as HCA director effective April 1, 2006. Also, the current director of HCA's Behavioral Health Department, Meloney Roy, was formally appointed to replace Linda Shulman as Behavioral Health director effective October 23, 2007. HCA was authorized 2,377 positions for fiscal year (FY) 2007-08 and a combined budget of over \$407 million.

### SCOPE:

Our overall audit objective was to determine whether appropriate actions had been taken to accomplish the transfer of accountability and administrative functions from the preceding to the succeeding HCA director. Specifically, we:

- verified that petty cash, change, and trust funds were properly accounted for and balances were reasonably stated;
- confirmed that fixed assets were accounted for properly and transferred to the incoming director, and evaluated controls over sensitive non-fixed assets;
- verified that required documents, such as *Statements of Economic Interests* and signature authorizations, were completed;
- reviewed actions taken to update security measures, including the deactivation of facility access cards and termination of computer access;
- confirmed that County equipment was collected from the outgoing director and accounted for properly; and
- verified that expenses incurred by the outgoing HCA director in the months before the director's retirement were appropriate.

We also verified that appropriate actions were taken upon the change in Behavioral Health director, such as completing *Statements of Economic Interests*, updating security measures, and collecting County equipment.

We performed audit tests and evaluations using documents provided by HCA Administration, Behavioral Health Administration, and the Auditor-Controller's Office. Our procedures included a count of petty cash and change funds at 7 of 34 HCA offices entrusted with such funds during January 2008.

The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors. For our audit, we used documents and records for the period December 2005 through May 2008.

## **FINDINGS:**

Overall, we found that HCA satisfactorily transferred accountability and administrative functions from the preceding to the succeeding HCA director and that actions taken upon the change in Behavioral Health director were generally appropriate. We confirmed that County equipment was collected from the prior HCA and Behavioral Health directors and that computer access was properly terminated. In addition, we verified that California Form 700, *Statement of Economic Interests*, was filed in a timely manner by the prior HCA director. We also verified that all expense reimbursements received by the prior directors during the 6 months prior to leaving County service were appropriate.

However, we identified several areas where action was needed to improve accountability for departmental assets. Specifically, although safeguarding of petty cash and change funds appeared adequate, improved oversight of these funds was needed to address other control issues identified during our count of selected funds throughout the HCA organization. In addition, improvements were needed to properly account for and attest to the accuracy of fixed assets and to periodically inventory sensitive non-fixed assets as required by County policy. Further, although our audit disclosed that HCA maintained sufficient trust fund subsidiary ledgers, trust fund reconciliations were not always submitted monthly to the Auditor-Controller.

We also identified improvements that were needed to better manage the transition upon a change in director. Although *Statements of Economic Interests* were eventually filed, action was needed to ensure future timely completion of these documents by all incoming and outgoing directors, as applicable. We also noted that County-issued identification badges/access cards and a key fob were not deactivated in a timely manner for the outgoing HCA and Behavioral Health directors.

Summarized below are details of the areas where improvements were needed. Although HCA management did not fully concur with all of the audit findings, management did initiate action during the audit as noted.

1. **Petty Cash and Change Fund Oversight.** Attention was needed to better manage and control HCA's 34 petty cash and change funds totaling over \$3,000. Specifically, improvements were needed to address the proper separation and use of authorized funds.
  - A. **Non-Separation of Funds.** The \$200 HCA Cash Control petty cash fund established within the General fund was not properly separated from the \$290 Cash Control change fund established with the Ventura County Medical Center (VCMC) Enterprise Fund. Fund custodians were unaware of the potential problems of not properly separating these funds, such as allowing Enterprise Fund petty cash expenditures without establishing an authorized fund and exceeding the authorized amount for petty cash expenditures. For example, our review of general claim reimbursements processed during August to December 2007 disclosed a Cash Control petty cash claim of \$420.20, which exceeded the authorized \$200 petty cash fund amount.

**Management Action.** HCA management agreed to implement corrective action and stated:

"HCA agrees that the petty cash and change fund should not be combined. HCA has separated the petty cash and change fund. HCA also adjusted the petty cash amount from \$200 to \$350 to meet operational needs. HCA would like to note that as an agency, at the time of the audit, the

total petty cash fund was \$450. The petty cash claim that exceeded the \$200 petty cash fund was a result of timing combined with a high volume of petty cash request and was an isolated event. This transaction was approved and processed by the Cash Control Fiscal Manager and Auditor Controller's office.

"The petty cash and change fund and receipts were in one cash box and counted and verified on a daily basis. The cash box was safely secured and locked, every night, in the safe. At no point in time was the cash over or short.

"Furthermore, as a result of a self audit and review several years ago of HCA cash handling procedures, HCA senior fiscal staff created a Cash Control and a Cash Collection procedure. These documents serve not only as training material but also as reference documents. To accommodate changes in staffing, HCA periodically sends the procedures, via e-mail, as a reminder to staff that handle cash of the appropriate processes. Also, on an as needed basis, HCA staff will set-up face to face training sessions and work through each component of daily cash collection and processing. HCA makes every attempt to ensure that proper cash handling procedures are trained and adhered to but due to the size of the agency, on occasion, human error occurs."

- B. **Proper Use of Authorized Funds.** The Business Office petty cash fund was not used for authorized purposes. Specifically, the Business Office unofficially designated \$150 of the \$250 petty cash fund to be utilized as a change fund without obtaining appropriate authorization. Although proper safeguarding and reconciliation procedures were established for the unauthorized change fund, adherence to County policies would ensure that funds are accounted for properly.

**Management Action.** Although HCA management did not fully concur with the finding, management agreed to implement action and stated: "Management concurs with findings in part. The petty cash and change funds are counted on a daily basis and secured in a locked drawer. HCA has reviewed the County Petty Cash policy and did not find any statements suggesting that utilizing petty cash to make a change fund was inappropriate. As of 9/3/2008, to meet operational needs, HCA has re-designated \$100 as Petty Cash and \$150 as Change Fund from the original \$250 petty cash fund."

2. **Fixed Asset Oversight.** Improvements were needed to properly account for fixed assets. Specifically, we noted that accountability was not transferred upon the change in director and annual affidavits were not always submitted timely to the Auditor-Controller.

- A. **Fixed Asset Accountability.** The transfer of accountability was not documented for over \$116 million in fixed assets from the outgoing HCA director to the incoming director. Government Code 24051 requires that the fixed asset inventory be formally transferred with a receipt from the preceding to the succeeding director, thereby transferring accountability for the department's fixed assets. We believe the intent of the Government Code is for the documented transfer to occur at the time of the change in leadership. However, although the outgoing director retired on March 30, 2006, the last of the fixed asset inventories submitted for June 30, 2006, were not certified by the incoming director until 5 months later on August 31, 2006.

**Management Action.** Although HCA management did not fully concur with the finding, management agreed to implement action and stated:

"An informal transfer process immediately occurred around March 30, 2006. The required formal transfer for over \$116 million in fixed assets, per California Government Code 24051, from the outgoing HCA Director (Durand) to the newly appointed HCA Director (Powers) occurred August 31, 2006. The incoming director must have an opportunity to verify the assets before accepting any responsibility. Nothing in the codes suggests a time-frame other than that it must happen. It was done responsibly and met the intent of the Government Code. At no time during the directorship transition period was the answerability, responsibility, and liability for these \$116 million in HCA fixed assets abandoned.

"Currently, there is no centralized checklist available to advise agencies on what items need to be addressed. HCA would like to suggest that an Administrative Manual policy that provides direction, with a comprehensive checklist be provided to all agencies and departments, to be used during a change in management to assure compliance with applicable Government codes. Since the audit commenced, HCA has developed a change in Director Check list to insure these items will be properly addressed in the future.

"HCA Director and Officers are now aware of the formal fixed asset transfer process and each agrees to comply with Government Code 24051. Specifically, when an HCA Directorship change occurs, the formal California Government Code 24051 will be followed."

- B. **Affidavits of Annual Inventory.** HCA did not always submit *Affidavits of Annual Inventory of County Property* to the Auditor-Controller as required. Government Code 24051 and the County Administrative Policy on *County Fixed Asset Inventory Control* require all departments to file fixed asset inventories under oath no later than July 10 of each year. However, our review of *Affidavits of Annual Inventory* submitted for the year ending June 30, 2006, disclosed that two of HCA's affidavits were submitted late and two were not submitted at all. Specifically, affidavits for Public Health and VCMC were submitted late on July 12 and August 31, 2006, respectively. Behavioral Health and HCA Administration affidavits for nearly \$4.2 million in fixed assets were not submitted to the Auditor-Controller. We also confirmed that this condition of late/missing affidavits for various HCA departments continued for the years ending June 30, 2007 and 2008.

**Management Action.** HCA management agreed to implement corrective action and stated:

"Behavioral Health and HCA affidavits of Annual Inventory reports were submitted on 7/18/2008 and 9/4/2008, respectively, for the year ending June 30, 2008. Currently, until the affidavits are filed, an HCA officer is in regular communication (i.e. via telephone and/or email) with an officer of the Auditor-Controller's and/or GSA office regarding project status and anticipated completion date. Henceforth, the annual fixed assets affidavits and disposition forms will be submitted in accordance with County policy.

"HCA is committed to abiding by the County Administrative Policy Chapter VII B-2 on County Fixed Asset Inventory Control. HCA has currently implemented a fixed asset oversight and reporting (i.e. affidavits, disposition forms, and etc.) process improvement."

3. **Sensitive Non-Fixed Assets.** HCA's sensitive non-fixed assets were not inventoried as required by the County Administrative Policy on *County Non-Fixed Asset Inventory Control*. Sensitive non-fixed assets are non-capitalized items with a value of less than \$5,000, and are subject to pilferage and misappropriation if not properly controlled. Although HCA defined and tracked sensitive non-fixed assets, the department owns approximately 107 laptop computers, 498 cell phones, and 609 pagers, none of which have been inventoried. Without periodic physical inspections of these items, theft or loss could occur without detection.

**Management Action.** HCA management agreed to implement corrective action and stated:

"HCA concurs with findings. Although the Agency did not have a centralized inventory practice, departments did have various tracking methods in place to identify assignment of laptops, cellphones and pagers. Furthermore, long before this audit the Agency director gave directions to centralize HCA inventories and to be fully accountable with County Standards.

"HCA is currently in the process of inventorying, documenting and tracking all agency Non-fixed assets. We expect to complete this inventory by April 2009. HCA has established an agency database to accommodate non-fixed assets by Department. HCA will conduct an annual, periodic inventory of these items. The Non-fixed asset database will be maintained and updated on a consistent basis."

4. **Trust Fund Reconciliations.** Trust fund reconciliations were not always submitted to the Auditor-Controller on a monthly basis as required by the County of Ventura Auditor-Controller's Accounting Bulletin 03-03 issued June 24, 2003. Our sample of reconciliations for 10 trust funds for August through October 2007 disclosed that reconciliations for 2 trust funds were not submitted. Specifically, reconciliations for the Mental Health Services trust fund (6300-7663), with a balance of over \$90,000 as of October 31, 2007, were not submitted for the three accounting periods reviewed. Reconciliations for this trust fund also were not submitted for five other accounting periods during FY 2007-08. Also, reconciliations for the Ventura County Health Care Plan trust fund (6510-7881), with a balance of \$1.5 million as of October 31, 2007, were not submitted for any individual months during FY 2007-08. During the time period tested, HCA understood that monthly reconciliations did not need to be submitted and that only an annual reconciliation was required because the trust fund had no activity. We recognize that the Auditor-Controller's Office did not actively enforce the monthly submittal requirement during this period. However, Accounting Bulletin 03-03 specifically designates the departmental responsibility of submitting monthly reconciliations to ensure the ongoing integrity of trust fund balances. All of the outstanding reconciliations were submitted to the Auditor-Controller as a result of this audit.

**Management Action.** Although HCA management did not concur with the finding, management agreed to implement action and stated:

"HCA does not concur with the findings.

"During FY 2007-08, the MHSA trust fund account reconciliations were not submitted to the Auditor Controller on a monthly basis. Prior to becoming aware of the Accounting Bulletin 03-03, HCA believed that monthly reconciliations did not need to be submitted and that only an annual reconciliation was required because the trust fund had no activity.

"Effective July 1, 2007, MHSA was reclassified from a General Fund to a Special Revenue Fund; therefore, the MHSA (6300-7663) trust fund need terminated. At that time, HCA should have requested the Auditor Controller authority to close the Mental Health Services Act (MHSA) trust fund account. When the trust fund did receive activity (i.e. \$90,000 as of October 31, 2007) it was the result of MHSA interest earnings that were not properly posted to the new Special Revenue Fund # 1450.

"In June 2008, this trust fund was closed. In August 2008, HCA was notified that the (6300-7663) reconciliation, for the period of July 2007 – February 2008, was not submitted and filed on-time. On August 27, 2008, HCA submitted all the missing monthly \$0 activity reconciliations reports for the period of July 2007 to February 2008.

"With regard to VCHCP failing to submit monthly trust fund (6510-7881) reconciliations, HCA understood from discussions with the Auditor Controller's office, that because there were no transactions taking place in trust fund 6510, that there was no need to complete monthly reconciliations. Subsequent to submitting reconciliations to date and confirming that HCA was not directed, by the Auditor Controller's office to submit monthly, prior to the audit, HCA understood that verbiage related to the VCHCP trust fund was to be removed from this report. Currently, HCA submits trust fund reconciliations on a monthly basis, as required by the County of Ventura Auditor-Controller's Accounting Bulletin 03-03."

5. **Statements of Economic Interests.** California Form 700, *Statement of Economic Interests*, was not filed in a timely manner with the Clerk of the Board by the incoming HCA director or by the incoming and outgoing Behavioral Health directors. Form 700 informs the public about potential conflicts of interest and is required by the Fair Political Practices Commission to be filed within 30 days after assuming or leaving office. Form 700 instructions state that "Persons serving as 'acting' or 'interim' or 'alternate' must file as if they hold the position." Therefore, the "assuming office" date on Form 700 for both of the incoming directors reasonably reflected the date the directors began acting in such a capacity (i.e., prior to formal appointment). However, the incoming HCA director's Form 700 was not filed until November 23, 2007, over 20 months after the stated assuming office date of March 1, 2006. Also, the incoming Behavioral Health director did not file Form 700 until April 29, 2008, over 10 months after the stated assuming office date of June 21, 2007. Further, the outgoing Behavioral Health director did not file Form 700 until April 14, 2008, nearly 8 months after leaving office on August 17, 2007. Untimely filing can result in fines by the Fair Political Practices Commission and challenge the County's compliance efforts.

**Management Action.** HCA management agreed to implement corrective action and stated:

"There is no centralized list available to advise agencies on what items need to be addressed. Since the audit commenced, HCA has developed a change in Director Check list to insure these items will be properly addressed in the future. HCA would like to suggest that the CEO, in conjunction with the Auditors Controllers office, develop, distribute and implement an all inclusive procedure checklist to insure that all agencies are properly and consistently directed for the proper protocol.

"The two incoming Directors (Michael Powers and Meloney Roy) were promoted into their directorship positions; therefore, both required Form 700, Statement of Economic Interest documents were current and on file with the Clerk of the Board."



6. **County Identification Badges/Access Cards.** HCA had not deactivated identification badges/access cards and a key fob, which allowed access to the Hall of Administration offices, for the outgoing HCA and Behavioral Health directors in a timely manner. The County Administrative Policy regarding *Employee Identification Badge* requires that each department be responsible for notifying the General Services Agency (GSA) to revoke an individual's electronic access. Specifically, the outgoing HCA director's identification badge/access card and key fob were not deactivated until January 2007, over 9 months after the outgoing HCA director retired on March 30, 2006. Although the outgoing director was subsequently contracted to provide consultation services for the period of May through December 2006, the deactivation of the identification badge/access card and key fob was required upon retirement. The prior director would then have been issued a new identification badge/access card appropriate for a contractor. Also, the outgoing Behavioral Health director's identification badge/access card was not returned and was not deactivated until GSA performed a routine scrub of the system sometime in 2007. Retrieving and deactivating employees' identification badges/access cards and key fobs upon separation are vital to the maintenance of a secure workplace.

**Management Action.** Although HCA management did not fully concur with the finding, management agreed to implement action and stated: "HCA concurs with findings in part. Pierre Durand was a contract employee until January 2007. Policy does not distinguish between contract and regular employee. HCA has incorporated this policy into the current change in Director Checklist currently maintained by HCA. HCA is committed to closely monitoring and immediately de-activating all card access when key personnel leave employment."

**AUDITOR'S EVALUATION OF MANAGEMENT ACTION:** Although HCA management did not fully concur with all of the audit findings, we believe that management actions taken or planned for each area identified for improvement were responsive to the audit. Management planned to complete corrective action by April 1, 2009.

We appreciate the cooperation and assistance extended by you and your staff during this audit.